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SUBJECT: Anti-Smuggling Efforts in Cebu

Ref: 07 Manila 3819

11. (SBU) Summary: Following the progress that an anti-smuggling coalition of business chambers, companies, and foreign embassies achieved in the Subic Freeport (reftel), a coalition led by the American Chamber of Commerce with Embassy support visited Cebu, the most important port in the central Philippines, to expand advocacy against fuel and vehicle smuggling into the Philippines. Persuading local officials to take effective action will take persistence and close monitoring -- as it did in Subic. The group's visit to Cebu received substantial media coverage and drew attention to the problem there. End Summary.

Cebu Background

12. (U) Cebu City is the second largest metropolitan area in the Philippines after Manila. Cebu's export zones, helped by its central location and deepwater port, have fueled its relative prosperity by attracting significant foreign direct investment. Cebu's government officials realize that addressing the concerns of foreign investors is important to ensure growth in the region.

The Current Issue: Fuel and Auto Smuggling

13. (SBU) Fuel: As reported reftel, according to official Philippine Customs statistics, fuel demand has not kept pace with economic growth in the Philippines. Fuel industry analysts suspect smuggling is the major reason for this anomaly. Some of the smuggled product may be tax-exempt oil intended for the Philippine economic zones, of which Cebu has several. Furthermore, the numerous Philippine islands and offshore transfers of oil to smaller ships make oil shipments difficult to track. Estimates of smuggled fuel run as high as 20% of the total, adding up to upwards of 10 billion pesos in lost tax revenue for the country as a whole.

14. (SBU) Auto smuggling: High import duties for new vehicles makes second-hand vehicle smuggling a particularly lucrative business. As an indication of the scale of the problem, there were 29,000 new vehicles registered with the Land Transportation Office in the Cebu region during the first ten months of 2007, versus legal sales of less than 5,000. Lost tax revenue for the whole country may be as high as 5 billion pesos.

Anti-Smuggling Dialogue

15. (SBU) Smuggling occurs throughout the Philippines. As reported reftel, an anti-smuggling coalition made some progress in November when Subic Freeport authorities tightened anti-smuggling measures. This coalition held an anti-smuggling dialogue in Cebu City on February 28 with local representatives from the Bureau of Customs, Port Authority, the Board of Investment, Land Transportation Office, and the Ombudsman.

16. (SBU) The lack of a single administrator or coordinator among Philippine government agencies in Cebu made the dialogue there less productive than the anti-smuggling coalition had hoped. Philippines officials there acknowledged the reputation of Cebu as a haven for smuggling, yet declined to take responsibility, pointing to the complicated shipping process. Indeed, the Presidential Anti-Smuggling Group has noted that while a number of vehicles were seized, there were no arrests or convictions.

17. (SBU) Comment: The group that visited Cebu realizes that its visit was just another step towards spurring effective action on a multifaceted problem that occurs throughout the Philippines. Nevertheless, the visit received substantial media coverage, raising awareness about the issue, helping to exert at least some pressure to address it, and highlighting the need for better coordination between the Ombudsman, Bureau of Customs and the Department of Justice.

Kenney